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UNCLAS SECTION 01 OF 03 ABUJA 001163

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LAGOS, PLEASE PASS TO FAS AND FCS

E.O. 12958: N/A
TAGS: ECON ETRD EFIN EINV PGOV NI
SUBJECT: NIGERIA: GON IMPLEMENTS PROTECTIONIST TARIFF SCHEDULE

REF: LAGOS 725

¶1. (SBU) Introduction and Summary: On March 6, the Government of Nigeria (GON) approved extensive, apparently politically-motivated tariff amendments largely designed to protect domestic special interests, particularly in agriculture and the processed food sector. Most domestic manufacturers saw modest reductions in tariff rates on their inputs while domestic manufacturers of some consumer goods will benefit from large increases on the finished products of their foreign competition. A doubling of the tariff on rice will ultimately translate into less disposable income for urban Nigerians and added pressure on the consumer price index. Unfortunately, the new tariffs will do little to improve domestic manufacturing or agricultural production, and will not substantially augment revenue for the GON. However, they do further damage to competitiveness in a country that already has too many monopolistic forces at work. End Summary.

PAY NOW, PAY LATER

¶2. (SBU) In the 2002 Fiscal Policy Measures and Tariff Amendments, the GON sharply boosted tariff rates on a wide range of processed food products contained within H.S. Code Chapters 1-25. In general, tariffs doubled for many processed and unprocessed foods such as butter, cheeses, vegetables, margarine, meat products, sugar (confectionary), pasta, breakfast cereals, and chocolate. The tariff on polished milled rice (H.S. Code 1006.0000), an important Nigerian staple, climbed from 75% to 100% in the Ministry of Finance's March 6 tariff schedule. Newspapers reported that on March 27, the Federal Executive Council (cabinet) decided to raise the tariff to 150%. (Note: As of April 11, the Ministry of Finance Deputy Director of Tariffs insisted that the tariff was still 100%, though he said an amendment would soon be released. When pressed, he refused to say whether rice tariffs would or would not be raised in the amendment. A 150% tariff would have a much greater effect on the rice market and consumer patterns than the currrent 100%.)

¶3. (U) A few food products enjoyed tariff reductions. Duties on all types of wheat (H.S. Code 1001.1000-9000) were reduced from 10% to 5% -- a potential boost for U.S. wheat exporters. Flavoring and fruit juice concentrate (in bulk) saw dramatic declines as the GON seeks to encourage more domestic re-packaging operations. (Nigerians consume relatively large quantities of fruit juices.) Domestically produced Chivita brand fruit juices will not be heavily impacted by the tariff reduction since it sources fruit locally.

¶4. (U) Luxury products were subjected to significant tariff increases. The rate on various tobacco products climbed from 80% to 150%. However, Nigerians consume very little tobacco per capita. The higher tobacco tariff ultimately may benefit British American Tobacco Company, which has proposed a $150 million tobacco plant at Ibadan. Duties on beverage items (e.g. bottled water, wine, beer) went from 80-90 percent to 100 percent) an adjustment designed to increase domestic manufacturers' competitiveness. Again, in an attempt to insulate domestic companies from cost-effective imports, stiff tariff increases were registered on beauty preparations, hair, and shaving products, as well as furniture, cigarette lighters, scent and toilet sprays.

Tariffs on Manufacturing Inputs Reduced

¶5. (U) A wide range of inputs into the manufacturing process recorded tariff reductions, including a reduction of duties for all industrial machinery to a maximum 2.5% and exemption from VAT. Mean duties on many chemicals (H.S. Code chapters 25-40) were reduced from 15% to 10%, although the tariff on aluminum sulphates (H.S. Code 2833.2400) doubled to 20% in an apparent effort to stimulate production at the Aluminum Smelting Plant (ALSCON) in Akwa-Ibom State. Toilet paper producer Star Paper Mill, Abia State, will most likely expand its market share with the five-fold tariff increase on tissue paper to 100% combined with lower tariffs on cellulose and wood pulp. Textile manufacturers benefit from higher tariffs (65%-75%) on a range of woven fabrics both natural and artificial. Concurrently, base products for textile production such as acrylics, nylons, viscoses, polypropylenes, and vinyl fibers enjoy a lower 5% tariff. Tariffs were adjusted both upwards and downwards on a wide range of base metal products; the net effect should favor heavy industry such as Nigerdock, Delta Steel, and the unfinished Ajaokuta steel mill.

¶6. (U) Obvious beneficiaries of the tariff amendments include Nigerian pharmaceutical companies. Lower tariffs of 5% almost across the board will be applied to machinery and electrical equipment (H.S. Code chapters 84-85), specifically for "bona fide" pharmaceutical manufacturers. The affected items include injection molding and wrapping machinery, software compact discs, and portable digital automatic data processing machines. Ironically, a special duty concession granted last year to Procter & Gamble (manufacturer of sanitary pads and diapers) enabling them to import assembly line machinery at a 5% tariff, is now diluted by the lower 2.5% rate. P&G had recently landed some machinery at the higher 5% tariff. In addition, P&G,s strenuous attempt to obtain a lower tariff on Ariel finished detergent proved unsuccessful as the tariff jumped from 40% to 100% (reftel). This was clearly a victory for rivals Unilever and PZ Industries, Plc., both U.K.- based companies producing detergent in Nigeria.

¶7. (U) Other fiscal policy measures included in the 2002 Tariff Amendments include: imposition of an outright ban on vehicles over 5 years old and used air conditioners (H.S. Code 8418.2100) and compressors, prohibition of containers originating in third countries entering Nigeria from its neighbors, and continuation of the ban on imported bulk vegetable oil. The Nigerian Agency for Food and Drug Administration and Control (NAFDAC) has implemented large increases in fees for imported products as well as inspection fees. An export incentive in the form of a 5% grant is offered for all agricultural cash crops -- of benefit to potential exporters under AGOA. The new measures terminate pre-shipment inspection of imported goods by 1 July 2002; Nigerian customs shall commence destination inspection on that date) it actually began 100% destination inspection in June 2001.

Back to the 70,s

¶8. (U) Import substitution would appear to be the major theme of the 2002 tariff changes. The GON officialdom contends that the new rates will significantly reduce domestic production costs, revitalize Nigeria,s industrial sector, and expand agricultural production. While lower tariffs for capital equipment and inputs can augment competitiveness, in the Nigerian context the impact may not be significant. As a portion of overall production costs, a tariff decline of 15% to 5% for machinery or chemicals, for example, may not be a sufficient fillip to reverse the decade-long decline in Nigeria,s industrial productivity and capacity utilization. Other production costs, such as maintaining generators, the high cost of access to capital, other economic rents, security, and distribution bottlenecks are as severe as ever.

¶9. (U) Wealthy Nigerians and expatriates will likely pay more for their food basket while the average Nigerian might substitute local products for the higher priced imports. The high-end consumers may be particularly galled to pay an even more extortive price for products, such as cheese, that do not have comparable domestic substitutes. The ability of middle class Nigerians to purchase processed food has been dealt a severe blow. Even locally-even produced items may also see rent-seeking price increases.

¶10. (U) Real economic harm may have come to Nigeria,s

increasingly hamstrung middle class. While very few Nigerians routinely purchase high value processed foods, millions eat rice. However, rice imports are notorious for finding their way into the country below the full tariff rate, through under-invoicing schemes and smuggling. Importers report Nigerian customs collects a fixed "fee" per ton for rice; a higher tariff will likely increase the "fee" charged by Customs. Ultimately, a portion of the higher legitimate or illicit duty on rice will be passed to the consumer. Nigeria,s farmers are unable meet to Nigeria,s appetite for rice, even with the benefit of this new protectionist measure.

¶11. (SBU) The tariff amendments are an attempt at a comprehensive trade policy, but one based more on political expediency than economic rationality. As such, it will likely result in higher food prices with little positive impact on domestic manufacturing. Moreover, the tariffs appear to contravene West African Monetary Zone (WAMZ) tariff reduction objectives established last June. GON tariff policy has previously aimed at increasing GON revenue, but there is a growing realization among some of the political leadership that high tariffs merely encourage payment avoidance. Increased smuggling and tariff subterfuges are more likely than increased revenue. However, the GON appears willing to stomach this consequence in order to score points with important vested interests.

¶12. (U) In addition to the particulars of the tariff increases and decreases, these changes as a group represent a movement away from the principles of tariff reform: lower and more uniform rates. They appear to run counter to the trade policy that was adopted last year with USAID's help. As such they may make eventual agreement on a new IMF program more difficult, as the Fund was pushing for a 25% maximum as a first step toward reform. Also, to the extent the tariff changes may reduce imports, they contribute to the overvaluation of the Naira and make doing business with and exporting from Nigeria more costly.

¶13. (SBU) During a brief April 3 conversation with Ambassador Jeter, Chief Economic Advisor Magnus Kpakol said that he had argued against the amended tariff schedule up until its approval at the last Federal Executive Council (Cabinet) meeting. Kpakol predicted that the higher tariffs would not earn substantially more revenue. He feared that even more importers would seek to circumvent the new tariff structure, particularly by bringing in items overland across Nigeria,s porous borders. Central Bank officials have expressed their belief that Nigeria would earn more revenue from a low tariff policy that encourages payment compliance, reduces the incentive to evade payments, and ratchets down rent-seeking opportunities and other corruptive behavior.

¶14. (SBU) Perhaps the real tragedy surrounding the new policy measures is that many Nigerians know they will not work. Containers, old vehicles, and high tariff items will continue to move across the border with Benin upon payment of the appropriate "dash". Nigerian manufacturers are likely to gain little from their marginally reduced cost of production inputs. Meanwhile, protected companies will have no incentive to increase efficiency and competitiveness but will have a cushion to increase prices, especially on food products.

¶15. (SBU) With elections now less than one year away, these tariffs seem aimed at placing the Administration in the good graces of various wealthy and influential special interests. Apparently, in the Government,s electoral calculus, the benefits of currying favor with this group outweigh the grousing that will probably come from average Nigerians due to higher tariffs and thus higher prices on consumer items and food. In short, the government decided to be politically crafty but economically imprudent.

Jeter